Capri Global Capital

Operator: Ladies and gentlemen, good day, and welcome to Capri Global Capital Limited Q2 and H1 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shweta. Thank you, and over to you, ma'am.

Shweta – Senior Vice President, Corporate Finance and Investor Relations: Thank you. Good evening, everyone, and a warm welcome to the Q2 and H1 FY27 earnings conference call for Capri Global Capital Limited. This is Shweta, Senior Vice President, Corporate Finance and Investor Relations.

Before we begin, let me read out a brief disclaimer for today's call. The discussion regarding Capri Global Capital Limited's earnings performance is based on judgments derived from the results declared and information on business opportunities available to the company at this time. The company's performance is subject to risks, uncertainties, and assumptions that could cause results to differ in the future. In that context, participants on today's call are advised to consider the same while interpreting the results. The complete disclosure is available on slide 65 of the earnings presentation. Participants are requested to take note of the same.

The format of today's call will be opening remarks by the management team, followed by a question-and-answer session.

Let me now introduce the management team from Capri Global Capital present on the call today. With us, we have Mr. Rajesh Sharma, Managing Director and Promoter; Ms. {? Divya Totla ?}, President and Executive Director, Business Strategy; Mr. Kishore Lodha, Chief Financial Officer; and Mr. Sanjeev Srivastava, Chief Risk Officer. I would now request our Managing Director, Mr. Rajesh Sharma, to present his opening remarks on the results. Over to you, sir.

Rajesh Sharma – Managing Director: Thank you. Good evening, everyone. I hope you are all doing well. We announced our financial results for the second quarter of FY27 on October 27. I trust you have had the opportunity to go through the earnings presentation, which is also available on our website.

Before I move on to the financial and operational highlights, I would like to touch upon the broader operating environment and key developments during the quarter.

The global energy shock, aggressive monetary tightening, and surging domestic inflation were critical macroeconomic headwinds that led to a softer overall environment for the quarter. Amid this soft macro environment, Capri Global delivered strong growth and profitability in Q2 FY25, successfully navigating challenging macro conditions marked by rising funding costs, global monetary tightening, and a 25 bps RBI repo rate hike.

Yet, I am delighted to share that Capri Global raised $300 million through its GMTN program during H1 FY25 via a maiden US dollar senior secured bond issue. As part of our liability diversification journey, we further raised Rs.500 crore through commercial paper, in addition to the Rs.1,271 crore

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raised in Q1 FY25 through a combination of NCDs and CP.

We continue to diversify our funding structure to capture global growth opportunities, optimize capital efficiency, and hedge against rising domestic interest rates.

Moreover, as part of our branch network expansion journey, we added 176 branches during the quarter, with continued focus on expanding digital journeys, embedding AI into customer and collection operations, and strengthening the platform that supports the lending cycle.

Last quarter, we demonstrated our capacity to scale AI. This quarter, that scale translated into measurable customer adoption and structural cost efficiencies.

Besides firmly establishing our footprint in the South, two brand campaigns starring acclaimed actress and entrepreneur Nayanthara as our brand ambassador helped us achieve a campaign reach of 141 million-plus, a positive visibility impact of 93.8%, and gold loan search growth of 173% plus. Our ESG rating continues to soar as we achieved a CRISIL ESG score of 72, placing us in the leadership category.

With this backdrop, I am pleased to say that Capri Global delivered strong quarterly performance in Q2 FY25, continuing its growth momentum and maintaining asset quality while delivering its highest-ever quarterly profit of {? Rs.98 crore ?}, a 77% increase year-on-year, and H1 FY25 profit of {? Rs.172 crore ?}, almost double that of last year.

The cost-to-income ratio improved to {? 42.6% ?} from {? 48.1% ?} in H1 FY25, reflecting stronger operating leverage. H1 FY25 RoE stood at 20.4%, reinforcing the company's progress on sustainable profitability.

Now, coming to our detailed business and earnings performance during this quarter.

We continued our strong momentum across all our lending businesses in Q2 FY25. Our consolidated AUM stood at Rs.14,378 crore, reflecting robust 52% year-on-year growth and 9% quarter-on-quarter growth.

Gold loan grew an impressive 102% year-on-year, MSME grew a healthy 25% year-on-year, and housing loan rose 39% year-on-year. Disbursements for the quarter rose 49% year-on-year to Rs.3,309 crore on account of a growing customer base and widening distribution network. Our growth remains granular, diversified, and retail-led, with our customer base now exceeding 8 lakh.

For our gold loan business, we delivered a strong and well-balanced performance in line with our strategic objective of growth driven by branch expansion while maintaining focus on effective risk management. With a net addition of 176 branches during the quarter, our overall branch network stood at 1,609 branches as of September 2024, with 1,154 branches dedicated to gold loans. While we entrenched ourselves in the southern belt through gold loans in the Andhra Pradesh and Telangana markets, the northern and central parts of Uttar Pradesh, Madhya Pradesh, and Rajasthan also saw a strengthening of the gold loan branch footprint in Q2 FY25.

AUM saw robust growth to Rs.2,100 crore, a sequential increase of 10% quarter-on-quarter, led by steady customer demand and productivity gains. Our aggregate branch productivity continues to

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remain resilient and now stands at Rs.1.82 crore per branch versus Rs.1.92 crore per branch, which is a function of rapid network expansion and the addition of new branches during the quarter, as well as the natural time lag for new branches to achieve full operational velocity. Alongside the increased employee base in the gold loan business, employee productivity increased from {? Rs.1.8 crore ?} a year earlier to {? Rs.2.4 crore ?}.

These steady productivity gains, and the fact that more than 86% of our branch network is already profitable, continue to support the expansion of Capri's gold loan book. Collateral weight in custody increased from 16 tonnes a year ago to 21 tonnes in Q2 FY25, an increase of 28% year-on-year and 4% quarter-on-quarter, and the number of active customers increased by 44% year-on-year and 8% quarter-on-quarter. Strategic branch expansion, which supports volume growth and improves branch productivity at existing locations, continued to sustain strong book growth momentum despite underlying market volatility.

Importantly, LTV of fresh disbursements during the quarter remained disciplined at 73.8%, in line with the increased RBI-prescribed limit for small-ticket loans and the permissible limit for income-generating loans.

On the asset quality front, the Stage 2 spike remains a blip, as our collateral cover remains highly resilient. While we are rigorously managing overdue accounts through targeted collection strategies and timely auctions, Capri Global maintains a stringent auction policy versus the competition to curb losses in the event of acute price volatility. Because the gold loan portfolio is predominantly granular and short-term, Capri's digital-first initiative acts as a continuous feedback loop to identify credit deterioration before it turns into a bad loan. Driven by data analytics, Capri's gold loan business utilizes automated LTV tracking, real-time LTV breach alerts, and a rapid recovery mechanism to minimize actual losses and establish a clear competitive edge.

Overall, Q2 marked strong performance for the gold loan business, combining growth through strong branch expansion while maintaining discipline on asset quality amid gold price volatility. Our branch expansion plan for the year is underway, and we expect to close the financial year with approximately 1,500 branches, reflecting our commitment to expanding our presence.

Management: Our MSME AUM grew to {? Rs.4,016 crore ?}, up 25% year-on-year, and disbursements stood at Rs.560 crore for Q2 FY27, up 36% year-on-year, primarily attributed to our foray into new geographies, namely Delhi, Uttar Pradesh, Mumbai, and Pune. Moreover, our expansion into new geographies focuses heavily on direct sourcing, which has given us a higher revenue contribution from our internal direct team.

Within MSME, our Micro LAP business continued to gain traction, with AUM rising to Rs.929 crore as of the end of Q2 FY27. This vertical enabled us to serve emerging self-employed borrowers with smaller ticket-size requirements. In this segment, we have implemented BRE gating criteria to filter out unsuitable customer prospects right from the start. That said, while exercising caution in sourcing, we are refining our sourcing strategy to target higher-tier profiles and increase the average ticket size, thereby productively elevating overall input quality.

In Q2 FY27, asset quality remained steady at 3.1%, at a similar level to Q1, supported by a strategic focus on middle- and higher-level customer segments across ticket sizes, and technology

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initiatives such as the new risk funnel, which moves beyond traditional bureau profiles. The platform synthesizes location, industry sourcing, and employee performance metrics into a unified risk assessment.

[pause] Our Housing AUM stood at Rs.8,325 crore, delivering year-on-year growth of 39%, anchored by robust customer retention, disciplined portfolio management, and the progressive scaling of the South India franchise. While focusing on current network productivity, we intend to enhance our presence in the southern states, particularly Tamil Nadu and Andhra Pradesh, where we see attractive opportunities for affordable housing finance. From a product and customer segment perspective, we will continue to focus on smaller-ticket loans and higher-yielding business, with increased emphasis on self-employed, non-professional customers, who now contribute 76% to our AUM. Sequential asset quality held steady, with GNPA standing at 1.2% in Q2 FY27, reflecting our consistent adherence to a disciplined credit and risk management framework.

Our Construction Finance AUM saw healthy growth of 51% year-on-year to Rs.7,503 crore, spread across 340 active projects, with an average sanctioned ticket size of Rs.48 crore and an outstanding portfolio ticket size of Rs.25 crore. The strong growth for the quarter comes ahead of festive demand and healthy traction in residential sales. Our portfolio remains geographically well diversified, reflecting a strategic focus on mid-sized and small developers across metro and Tier 1 cities. This footprint expanded further in Q2 with our maiden foray into the Tamil Nadu metro market. Our construction finance book remains granular, with emphasis on disciplined underwriting through rigorous due diligence and escrow-based cash flow management, ensuring a risk-containment approach. Q2 FY27 saw a sharp improvement in asset quality, with negligible NPA reported for the quarter, led by recoveries from written-off accounts to the tune of about Rs.8.5 crore, and we further expect recoveries over the next 12 months.

Our total branch network expanded to 1,609 locations in Q2 FY27, with a net addition of 176 branches during the quarter. We are steadily expanding our network and geographical reach to establish a large-scale pan-India retail lending footprint.

[pause] Now coming to earnings performance, let me provide an update. Our blended yields and spreads on net advances increased in the quarter to 17.5% and 8.3%, respectively, driven by an increasing share of high-yield products and the leverage of a competitive cost of funds. Our net interest income for Q2 FY27 stood at Rs.812 crore, up 69% year-on-year, driven by strong loan book expansion. In line with our focus on building a diversified and resilient earnings profile, we continue to strengthen our non-interest income stream in Q2 FY27, reinforcing our strategy of generating recurring, quality fee income. Non-interest income grew 34% year-on-year to Rs.273 crore, contributing 25% of our net total income for the quarter. This strong increase was largely driven by growth in commissions on insurance distribution and treasury gains.

In our insurance distribution business, we generated net fee income of Rs.51 crore during the quarter. On the IRDAI consultation paper, based on our review of the consultation paper, we expect the primary impact to be in the areas of distributor governance, sales monitoring, customer disclosure, audit trails, policy tagging, reporting, and compliance oversight, rather than any fundamental change in the insurance distribution model. We have initiated a gap assessment covering sales journeys, distribution management systems, customer consent capture, policy

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issuance workflows, training, certification, records management, information systems, and regulatory reporting.

Also, Capri Global leverages a technology-driven distribution model to maintain efficiency. Its proprietary insurance technology platform utilizes data analytics, AI, and digital channels such as apps and call centers to structurally lower customer acquisition costs. This advanced technology architecture will ensure a seamless operational transition across products and channels, fully aligning with the proposed regulations.

Moreover, compared to peer NBFCs that rely heavily on insurance cross-selling for pre-tax profit, Capri Global's core earnings remain highly anchored to the retail loan book, including gold loans, housing finance, MSME, and co-lending. Therefore, if implemented, the new draft guidelines may not have much impact in FY27. We expect return on average equity for FY28 and FY29 to decline by about 1% at the consolidated level. Also, the consultation paper puts forward a framework that could allow higher remuneration for distribution in underserved markets, including rural areas, smaller towns, and smaller cities, thereby incentivizing distribution where customer access is limited. Capri Global could be a potential beneficiary here.

[pause] Our co-lending AUM surged 60% year-on-year and 12% quarter-on-quarter to Rs.9,083 crore, now accounting for 21% of total AUM, reflecting our strategy of capital-efficient growth. As you would be aware, new co-lending guidelines came into effect from January 1, 2026, and, as per those guidelines, NBFCs have already started moving to the new CLA guidelines once existing contracts expire. More than half of our partner banks have already transitioned to the new CLA guidelines. While such a transition may cause temporary softness in disbursements in the co-lending mode, advanced technology integration and stronger bank partnerships have ensured that we are able to maintain our 21% share despite these changes. Also, the near-term impact is expected to be offset by rising direct assignment arrangements, with the latter now contributing 28% to our co-lending AUM. Partner banks continue to show strong demand for these arrangements, attracted by the priority sector lending compliance of our loan book and gold portfolio. Our co-lending and DA income for the quarter stood at Rs.72 crore, up 11% quarter-on-quarter, driven by deeper engagement with partner banks.

Our car loan distribution business maintained steady momentum, with originations of Rs.3,601 crore in Q2 FY27, up 27% year-on-year. With a growing footprint and deep relationships across 13 partner banks and financial institutions, we have built a scalable platform with a pan-India presence across 821 locations, with the potential to monetize further distributors in other products.

On the expenses front, our operating expenses increased 7% quarter-on-quarter. This was mainly driven by the net addition of 1,477 employees on account of higher branch additions and strategic network expansion during the quarter. Yet, the cost-to-income ratio improved to 41% in Q2 FY27 from 44% in Q1 FY27 and 49% in Q2 FY26, reflecting our continued focus on operating efficiency. This sharp improvement signifies the benefit of investment in technology, the maturing branch network, rising productivity, and improving operating leverage across our business. As a result of margin expansion, operational efficiency improvement, and strong traction in fee income, our pre-provision operating profit surged 84% year-on-year to Rs.636 crore for the quarter. Further, we continued our strong profitability momentum in Q2 FY27, delivering robust profit after tax of

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Rs.418 crore, up 77% year-on-year. Our return ratios considerably improved during Q1 FY27, with return on average equity at 21.6% versus 14.4% for the previous year, and return on average assets at 4.4% for the year versus 4% for the previous year.

[pause] Now coming to asset quality, we saw improvement in our asset quality across each of our business segments, except gold loans. Our gross Stage 2 assets spiked by Rs.1,266 crore, which is entirely attributable to a similar spike in gold loan Stage 2 assets. This is temporary in nature, also given the high collateral value of the underlying assets and our focus on proactive collection.

Following the RBI's revised gold loan guidelines, effective from April 2026, which require accrued interest to be factored into the LTV ceiling for bullet loans, most major gold loan lenders moved towards shorter-tenor products. We similarly introduced monthly and bimonthly repayment-frequency loans in Q1 FY27. These shorter cycles led to technical delinquencies driven by repayment convenience rather than borrower ability or willingness to pay. Shorter loans simply cross overdue thresholds sooner. This was a widely reported industry experience. We have already discontinued these schemes and reverted to standard longer-tenor structures. The increase in reported GNPA in gold loans particularly reflects product-level repayment dynamics and our calibrated approach to collateral enforcement, rather than a corresponding increase in expected credit losses. Importantly, the underlying collateral coverage and historically demonstrated recovery performance continue to provide substantial protection against principal loss. As part of our transition to the revised regulatory framework, we introduced certain shorter-tenor repayment structures during Q1 FY27. While these products were designed to facilitate more frequent repayment discipline, the change in repayment frequency created some friction for customers accustomed to conventional bullet repayment structures, resulting in higher technical delinquencies.

[pause] Gross Stage 3 assets spiked by Rs.95 crore quarter-on-quarter, mainly on account of a Rs.126 crore increase in the gold finance segment. However, Rs.45 crore was written off on account of construction finance slippage in Q1, wherein we recovered Rs.9 crore during the quarter and expect further recoveries over the next 12 months. Our consolidated gross Stage 3 ratio spiked by 22 bps quarter-on-quarter to 1.2%, due to a spike in gold loans at around similar levels. Housing loan Stage 3 remained steady at 1.2%, and construction finance Stage 3 improved significantly, dropping to 1.02% on account of write-offs and recoveries, as mentioned earlier. The net Stage 3 ratio stood at about 0.8%, up 22 bps sequentially, and is still among the top quartile in the industry.

Our impairment cost for the quarter stood at Rs.79 crore. This was largely attributed to the write-off of accounts in the construction finance book and prudent management overlay and provision to account for evolving macroeconomic conditions. Our credit cost for the quarter stood at 0.8%, and we expect to maintain credit cost in the range of 0.6-0.9% on a sustainable basis going forward. At the consolidated level, our provision coverage ratio on Stage 3 assets stands at 33.3%, and our segment-wise PCR also remains healthy and among the best in our peer group.

[pause] Now coming to capital, liquidity position, and borrowings, let me talk about the liquidity side. Our borrowings increased by 82% year-on-year, and the incremental borrowing sanction limit was around Rs.4,428 crore. We now have more than 40 lender relationships. We also continue to diversify our borrowing mix by raising funds through other instruments such as non-convertible

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debentures and commercial paper. Just after the close of H1 FY27, we raised Rs.160 crore from non-convertible debentures, besides the Rs.1,471 crore raised in Q1 FY27. As a result of liability diversification and our active efforts on repricing existing borrowings, our cost of borrowings increased only marginally quarter-on-quarter to 9.2%.

Our balance sheet remains robust, with a low leverage ratio of 3.8, providing ample headroom to support growth across business segments. Our standalone capital adequacy ratio for Capri Global Capital is 22.7%, and 27.8% for Capri Global Housing Finance. Our liquidity remains comfortable, with over Rs.6,057 crore in cash and bank balances, investments, and undrawn credit lines for the consolidated entity.

[pause] On the technology front, over the years, technology at Capri has evolved from an operational enabler into a strategic differentiator. Our proprietary platforms, artificial intelligence, and digital infrastructure are translating into measurable gains in productivity, credit discipline, customer engagement, and operating leverage. With our technology ecosystem [cut off]

Management: predominantly developed in-house, we have the ability to continuously refine platforms, recalibrate decision models, and respond rapidly to evolving portfolio behavior and business requirements.

This enables us to embed intelligence directly into the operating architecture, strengthening execution efficiency, consistency, and control as we scale.

During Q2 FY27, this progress was evident across digital adoption, underwriting, collections, and AI-led productivity. Digital penetration across our MSME and housing businesses continues to demonstrate sustained momentum, with 91.2% of inbound payments received digitally in September, compared to 90.7% in June. Our Capri Loan application facilitated over 17 lakh transactions aggregating approximately Rs.594 crore during Q2, registering 47% quarter-on-quarter growth in transaction value. Monthly transaction value increased consistently to Rs.219 crore in September, more than doubling from Rs.106 crore in January.

With over 3 lakh transacting customers, the application is progressively evolving into a high-engagement, self-servicing transaction ecosystem.

Our proprietary underwriting intelligence platform, Sentinel, continues to mature into an integrated credit decisioning ecosystem, combining rule-based automation, behavioral analytics, and portfolio-informed risk intelligence. Our evolving underwriting architecture brings together Decision AI, Vision AI, Generative AI, and emerging agentic AI capabilities to interpret financial information, validate documentation, assess borrower behavior, and identify risk exceptions.

These interconnected intelligence layers progressively equip credit managers with real-time insights, contextual risk assessment, and actionable recommendations, enabling faster, more consistent, and better-informed credit decisions.

During Q2, our BRE rule engine evaluated over 1.08 lakh applications, registering 34% quarter-on-quarter growth, with automated policy validation and origination. In parallel, over 21,000 bank statement assessments were processed through intelligent analytical workflows.

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The larger transformation is from fragmented, manually intensive credit assessment towards an integrated AI-assisted decisioning architecture, where human judgment is augmented by real-time intelligence. As these capabilities mature, we expect to improve underwriting productivity, accelerate decision turnaround, strengthen portfolio selection, and create a structurally more efficient credit operating model supporting disciplined credit cost and sustainable risk-adjusted returns.

Our collections transformation is underpinned by Pegasus, our proprietary collections execution platform, operating in conjunction with Kronos, our collection intelligence model. The integration of these capabilities is progressively transitioning our collections architecture from conventional activity-led recovery processes towards predictive, behaviorally segmented, and intelligently orchestrated interventions. Technology-enabled collections across MSME and housing increased to 34% in September, compared with 32% in June.

Our speech AI and conversational intelligence capabilities have already achieved meaningful production scale. We are progressively extending these capabilities across our gold loan portfolio of approximately 8 lakh customers, initially focusing on delinquency management, repayment reminders, and collections. Speech intelligence interprets customer interactions, document intelligence structures unorganized information, and vision intelligence strengthens visual verification. Predictive models support risk differentiation, while conversational systems facilitate contextual customer engagement.

Our next phase of technology development is focused on the convergence of agentic AI, intelligent workflows, orchestration, and ultra-low-latency decisioning. We are preparing to introduce a cluster of specialized AI agents across our digital customer channels, designed to provide multilingual, round-the-clock assistance and progressively automate defined servicing workflows. In parallel, we are developing an in-house decisioning framework, targeting a reduction in processing latency from seconds to milliseconds for eligible automated decisions.

This convergence of real-time data, predictive intelligence, and autonomous workflow execution represents an important progression towards an increasingly frictionless customer journey, faster decision-making, and higher straight-through processing.

Our emphasis will remain on translating these innovations into measurable improvements in transaction economics, processing productivity, decision consistency, and customer experience.

As we look ahead, the convergence of our technology architecture, advanced analytics, and artificial intelligence is fundamentally redefining the economics of our operating model. We are progressively building an intelligence-led enterprise. The cumulative impact extends well beyond conventional productivity improvements. It creates the foundation for sustained operational leverage, structurally lowering marginal costs with scalable growth while reinforcing the quality, consistency, and resilience of our earnings.

On the ESG front, we are pleased to share that Capri Global's ESG practices have received recognition from leading global rating agencies. The company achieved an S&P Global ESG score of 70, ranking 20th globally and 7th in Asia Pacific, and was recognized in the S&P Global Sustainability Yearbook as the highest-scoring NBFC in its category, receiving the prestigious

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Industry Mover award. Capri Global also achieved a CRISIL ESG score of 72 and an NSE ESG rating of 73, placing it in the leadership category. The company has also been assessed as having low ESG risk by Morningstar Sustainalytics.

Our commitment to sustainable financing is further reflected in our Sustainable Financing Framework, which received a good rating through an independent second-party opinion by Sustainable Fitch. We have also strengthened the credibility and transparency of our ESG disclosures, with BDO providing third-party assurance over Scope 1, Scope 2, and Scope 3 emissions, including financed emissions. This represents a significant milestone, particularly as relatively few NBFCs have attained assurance covering this depth of emissions disclosure. We also released the third edition of our Sustainability Report, reflecting our continued focus on transparency and alignment with globally benchmarked standards. Together, these achievements reinforce our commitment to responsible growth and the integration of sustainability considerations across the company.

Before we open the floor for questions and answers, let me sum up. We delivered a strong performance in Q2 FY27, with healthy AUM growth across our key lending segments, supported by a diversified and predominantly retail secured portfolio. Profitability significantly improved during the year, driven by a changing mix towards high-yield products, improving margins, strong growth in fee-based income, and operating leverage from the existing branch network, while asset quality remains under control. With a strong capital position and continued investments in technology and distribution, we are well positioned to scale efficiently and are confident of achieving our AUM target of Rs.65,000 crore by FY28, sustainable return on average equity of about 20-21%, and return on average assets of 4.2-4.7% by FY28.

We shall now be happy to take your questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Ishank Gupta from Choice Institutional Equities. Please go ahead.

Ishank Gupta – Choice Institutional Equities: Good afternoon. Congratulations on a good set of numbers. My first question is, large players in the gold loan industry have observed a decline in yields over the last few quarters. The majority of their peers have their networks particularly in the South, and we are aspiring to build our network there. How are we targeting to defend yields on gold loans? Could you also please enlighten us on the trends that we expect in terms of incremental and overall portfolio yields?

Management: [pause] Thank you. [pause] If you have observed our numbers, our yield has improved slightly by keeping a focus on ticket size, not growing in the larger-ticket-size segment, and doing more of {? tiger loan ?} while focusing on the growth target and the competition. We have focused on granular growth, where the ticket size is not as high as Rs.5 lakh and above. Some of the

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contribution has also come because, when a gold loan customer defaults, the interest rate also goes up. With this combination, I think our yield has improved by 19%. Going forward, even while competition is increasing, we are quite confident that our yield will not go significantly lower. We will always maintain equilibrium between yield, growth, and asset quality. We do not wish to grow at a low yield. Rather, if required, we can always increase the level of our smaller-ticket lending in gold loans instead of going for larger ticket sizes. I think that strategy is working well. Through our data science tool, we are able to identify which customers are likely to result in a better yield, and that is where we differentiate. While we have also launched Vyapar Mela Mahotsav and similar initiatives, even in those initiatives we focus on smaller-ticket-size customers. With this strategy, I think we should be able to withstand this competitive pressure and maintain our yields.

Operator: Thank you. The next question is from the line of Laksh from Share India Securities. Please go ahead.

Laksh – Share India Securities: Good evening, sir. This is Laksh from Share India Securities. Congratulations on your strong set of numbers. You highlighted Vyapar Mela. I believe the gold loans there were starting at around 11%. Can you tell us how much of the overall gold loan book was given through this Vyapar Mela and at what rate of interest? Could you highlight that?

Management: When you launch Vyapar Mela, it is not conducted for all the days. It is conducted on a particular day to immediately attract customer attention and bring customers in. When the customer actually comes in, it is not necessary that every customer will be offered those rates. While we can offer those rates to larger customers, for smaller customers, for various other reasons, there could be a low LTV and a low interest rate, while for some smaller customers, we still maintain our original rate. This is a different kind of activity where you create a buzz, but you always keep a sharp focus on ensuring that you do not end up lowering your portfolio yield by structurally conducting business at a low yield. That is precisely reflected in our numbers.

Laksh – Share India Securities: Okay, no issue, sir. Also, could you tell me why your AUM per branch has gone down from Rs.19.2 crore to around Rs.18.2 crore? What is the reason for this? You are expanding your branches constantly in the gold loan segment, so why is AUM per branch actually coming down? Could you highlight something on this?

Management: Additions have taken place between the number of branches in the last quarter and the number of branches in this quarter. The numerator and denominator effectively reflect this. The new branches will not immediately generate AUM. On a base of Rs.1,000 crore, branch AUM was Rs.19 crore or Rs.18 crore per branch. When you add the new branches, automatically, if you add 154 branches, those 154 branches may either reach Rs.3 crore or Rs.4 crore, not Rs.19 crore. That effect will be seen in the average.

Laksh – Share India Securities: Okay. Does that mean that, at the pace at which you are going to add gold loan branches, this number will come down further in the coming quarters? You are adding gold loan branches at a rapid pace, right?

Management: From an efficiency perspective, we used to see that the average AUM of our gold loan branches that were more than 18 months old was still about Rs.20 crore. The average for new branches, depending on the pace, will be between Rs.4 crore and Rs.7 crore.

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Laksh – Share India Securities: Okay, got it, sir. One last question. Several states have declared drought conditions. What is the impact of this drought on your business, not only gold loans but also your other businesses? Will you go slow in any of the categories because of this drought-like situation?

Management: I would like Sanjeev Srivastava to answer this.

Sanjeev Srivastava: We have largely analyzed all our portfolios for the geographies affected by drought. As far as MSME, HL, and CF are concerned, we have practically not seen any impact. As far as gold loans are concerned, obviously, in branches located in semi-urban and rural areas, we have seen initial signs of some stress. But, of course, we are properly collateralized and have the right kind of security to cover any unforeseen [cut off]

Management: ...that might arise in the future.

Ishank Gupta – Choice Institutional Equities: Okay, sir. But will you go slow in terms of disbursements or sanctions in this area?

Management: Sorry, could you repeat that question?

Ishank Gupta – Choice Institutional Equities: Would you go slow on disbursements or sanctions in this area where you are seeing some stress?

Management: Yes, wherever we are seeing stress, we are definitely tightening our processes. As and when the numbers unfold and we gain more understanding, we will increase the FOIR ratio for income-generating loans and reduce the LTV. We will undertake those activities for sure.

Ishank Gupta – Choice Institutional Equities: Okay. Thank you for answering my questions, and once again, congratulations on a strong set of numbers.

Management: Thank you.

Operator: Thank you. The next question is from the line of Ishan Gupta from Choice Institutional Equities. Sir, your line got disconnected, so please go ahead.

Ishan Gupta – Choice Institutional Equities: What trend do we foresee in incremental cost of funds and overall cost of funds by the end of this year and next year?

Management: [long pause] We are not currently witnessing material pressure on our blended cost of domestic borrowings, supported by the structure of existing liabilities and continued improvement in our credit profile. A significant proportion of domestic borrowing is linked to an MCLR-based benchmark, where contractual reset provisions provide a degree of insulation against an immediate interest rate hike, because these rates are reset at the end of either 6 months or 12 months, as specified in the contracts. Consequently, changes in the benchmark rate do not necessarily immediately translate into an equivalent or immediate increase in the overall borrowing cost.

More importantly, our improving profitability, operating scale, and credit profile have enabled us to negotiate lower lending spreads with several banking partners, including on existing facilities. These reductions provide a meaningful offset against a potential increase in the benchmark rate.

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Accordingly, so far there has been no increase in the cost of funds as such. Gradually, over a period of time, when the interest rate goes up and the MCLR is reset, rates will increase to that extent. However, we also offset this by borrowing in the capital market through short-term money, because our gold loan portfolio has a behavioral tenor of less than 6 months. We will increase the mix of shorter-tenure borrowings through commercial paper and NCDs, where we are able to borrow at a cheaper rate.

Ishan Gupta – Choice Institutional Equities: Considering that around 70% of our overall borrowing is through bank term loans, and with an MCLR reset of 6 months later this year, if there is a 50 bps repo hike, we may see about a 25-30 bps hike in our cost of funds. Is it fair to assume this?

Management: To the extent that the MCLR of the bank increases, the cost of funds will increase by that amount on the day of the reset. If we assume that the repo rate does not directly translate into the entire hike in the MCLR, and the MCLR increases by, say, 15-20 basis points, then yes, it will increase to that extent.

Ishan Gupta – Choice Institutional Equities: Understood. Sequentially, gross and net NPA have seen a sharp uptick. Could you explain the movement? Moreover, were the slippages driven by any specific geography, or were they broad-based?

Management: As we said, our slippages have not occurred in MSME, housing, or construction finance. They have occurred only in gold loans. Gold loan slippages have increased because different short-term loan tenures were introduced due to the new guidelines, with tenures of 1 month, 2 months, and 3 months. Based on that, in the gold loan portfolio, we have seen Stage 2 increase by Rs.1,266 crore. This is temporary in nature. We are quite confident that by the end of the next quarter, this will significantly come down because the schemes where repayment or interest was due between 1, 2, and 3 months have been reduced.

Ishan Gupta – Choice Institutional Equities: Understood. That is it from my end. All the best for the next quarter.

Operator: Thank you. The next question is from the line of Nivedita Choudhary from ICICI Securities. Please go ahead.

Nivedita Choudhary – ICICI Securities: Congratulations, sir, on a good set of numbers. Given the strong performance in H1, do we expect an increase in sales? I mean, guidance. Are we revising our FY27 guidance?

Management: In terms of AUM, we are maintaining our FY27 guidance at about Rs.50,000 crore. We have already reached about Rs.44,000 crore, and we are likely to do better, but our guidance remains Rs.50,000 crore. As far as profit after tax is concerned, I think we will achieve about Rs.1,600 crore.

Nivedita Choudhary – ICICI Securities: Thank you, sir.

Management: Thank you. Yes.

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Operator: Thank you. The next question is from the line of Gagandeep Singh from Doon Funds. Please go ahead.

Gagandeep Singh – Doon Funds: Congratulations on a great set of numbers. My question is on gold NPA. As you said, I just wanted to confirm whether the entire gross NPA and net NPA will go down from the next quarter.

Operator: Sir, you are not audible.

Management: [line issue] Hello, am I audible now?

Operator: Yes.

Management: The increase in reported gold loan delinquencies during the quarter was attributable largely to identifiable operational factors rather than a corresponding deterioration in underlying credit quality. We have undertaken a detailed assessment of the contributing factors and have already implemented corrective measures, including discontinuation of the shorter-tenure repayment structures that contributed to this accelerated delinquency. By the end of the next quarter, you will see delinquency in gold loans coming down significantly. In any case, our loan-to-value remained very conservative. At the portfolio level, it is about 70%, leaving adequate margin and room available for recoveries.

Gagandeep Singh – Doon Funds: Thank you, sir. That is about it.

Operator: A reminder to all participants: anyone who wishes to ask a question may press star and one on their touchtone telephone.

The next question is from the line of Sagar Shah from Spark Private Wealth Management. Please go ahead.

Sagar Shah – Spark Private Wealth Management: Thank you for the opportunity, and many congratulations to the team for another excellent set of performance in the quarter. I have two questions. My first question is related to gold loans. You said that we are quite comfortable with the ticket size of gold loans and are looking to decrease or maintain our ticket size rather than scale it up, at least to maintain our yields. However, if I look at slide number 8, which shows the average ticket size, it has been increasing for the last 3 quarters and is now reaching almost Rs.2,14,000. I wanted to understand at what level we are looking to stabilize the average ticket size, especially as we are now expanding into South India, where competition is quite high. That is my first question.

Management: Our ticket size remains below Rs.3 lakh. If you look at the competition, some players are providing gold loans above a Rs.5 lakh ticket size, and that is where the interest rate is very low and net realization is lower. Our focus will continue to remain on ticket sizes below Rs.3 lakh, where yields are better. While this requires more effort, you can command better yields there. We are also not participating in this teaser-loan competition, but are focusing on our core smaller-ticket retail portfolio. With this strategy, we have seen that in both of the last 2 quarters, we have been able to improve our yield while maintaining growth in our targeted group trajectory.

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Sagar Shah – Spark Private Wealth Management: Is it fair to assume that we will stabilize near Rs.3 lakh, where our target segment or target customer is present?

Management: Yes.

Sagar Shah – Spark Private Wealth Management: My second question is related to the new co-lending guidelines. Almost all major banks have already transitioned to them, and co-lending accounts for 21% of the portfolio. I wanted to understand, based on the provisions, how the new provisions will affect Capri Global in terms of co-lending and DA, the origination of new loans, and our borrowings. What is the net effect of these provisions on your business?

Management: Under the new guidelines, income will now be recognized over the lifetime of the contract instead of upfront under the revised co-lending guidelines. The impact is that you cannot book upfront income in the co-lending contract. As far as the various other operational changes are concerned, simultaneous disbursement has to happen within 15 days, and certain LTV and other norms have to be aligned with the new overall gold lending guidelines. Integration with bank partners has already happened for more than 50% of our partners. That is the reason we have been able to grow co-lending by about 12% quarter-on-quarter.

Further, we have also started using the direct assignment route, which will help us further down-sell our portfolio through DA. With this combination, it becomes a highly asset-light model where we are able to earn the entire spread, while our capital is released the moment we down-sell and undertake co-lending. The overall impact is that it is a capital-light model without compromising returns. In the books of the bank, it is reflected in retail lending, and priority sector loans are reflected under the priority sector. Therefore, it is a win-win situation for both parties.

Sagar Shah – Spark Private Wealth Management: Can we assume that your co-lending income, which is your non-interest income, might take a hit once the entire new scheme comes into force in your books of account?

Management: To clarify, co-lending income was earlier booked upfront. Under the new guidelines, you cannot book it upfront. Therefore, the upfront recognition has changed. However, co-lending provides the benefit that you do not need to provide any capital because you have already down-sold that portfolio. You still receive the entire spread in your books. As far as the earning potential is concerned, there is no change. As far as the allocation of capital is concerned, there is no change because the capital is released. The only change is that you cannot recognize the income of the co-lending portfolio upfront; it is booked over the life cycle of the co-lending contract.

Sagar Shah – Spark Private Wealth Management: Got your point, sir. Thank you, and all the best for the subsequent quarters.

Operator: Thank you. The next question is from the line of Meet from Antigravity Ventures. Please go ahead.

Meet – Antigravity Ventures: Thank you very much for the opportunity, and congratulations on a great set of results. I wanted to understand the demand in the MSME segment. Are we seeing any

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stress because of geopolitical and macroeconomic issues in our book and in demand? That is my first question.

Management: If you look at our segmental GNPA in the MSME segment, it has remained quite stable. Over the last 3-4 quarters, it has remained in the range of about 3-3.1%. Therefore, we are not seeing any stress in the MSME portfolio. So far, the geopolitical situation has not had any impact. Growth is also good. We were able to disburse close to Rs.560 crore during this quarter and grow the portfolio as per our target.

Meet - Antigravity Ventures: I also wanted to understand the branch additions. What kind of branch additions are we targeting in Q3 and Q4?

Management: This year, the board has approved 600 branches. We are going to add about 500 branches this year.

Management: ...in the gold loan business alone. Besides that, we will add more branches in MSME and affordable housing. Last quarter, we added about 176 branches, out of which 154 branches were for gold loans and approximately 22 branches were for the non-gold segment.

Meet - Antigravity Ventures: Got it. So, we would be adding 500 branches in gold loans, and a smaller number in MSME as well, right?

Management: We will be adding more branches in both the MSME and affordable housing segments.

Meet - Antigravity Ventures: Got it. Lastly, regarding the OpenAI partnership, which we discussed in the last call, what is the update on the technology integration that we had anticipated?

Management: I will ask Divya to take this question.

Divya: Good afternoon. Regarding OpenAI, we have already initiated the partnership. It has been institutionalized within the organization across various workstreams. On the development side, we have started seeing a sharp improvement in productivity and other metrics. However, OpenAI is also working with our team to institutionalize an enterprise-level solution on the customer service side as well as in loan productivity management. The entire project is under progress, and we will continue to provide updates as it moves forward.

Meet - Antigravity Ventures: Thank you very much, and all the very best for the next quarters.

Operator: Thank you. The next question is from the line of Saumya from {? Nirva Securities ?}. Please go ahead.

Saumya - {? Nirva Securities ?}: Good evening. Thank you so much for taking my question. Gold loan AUM has doubled year-on-year, but live accounts have declined approximately from 10.1 lakh in Q4 to 9.83 lakh in Q2, if I am not mistaken, while average ticket size has increased to Rs.2.14 lakh. How much of the AUM expansion is attributable to gold price appreciation and higher ticket sizes rather than genuine customer acquisition? Are we seeing any moderation in underlying business volumes?

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Management: [pause] Live accounts per customer have gone down. This naturally means that borrowing by the same customer across different LANs has gone down. However, the overall number of live accounts [trails off]

Operator: Sir, you are not audible. Sir, you are not audible.

Management: If you look at our total number of customers, it has increased from 6,59,000 to 7,13,000. There is an increase of approximately 8% in the number of unique customers. As far as the number of live accounts going down is concerned, live accounts per customer have decreased. This means that the number of LANs for the same customer borrowing through different LANs has gone down, but there has been growth in the customer base. Therefore, it is not the case that new customers have not been added. The total number of unique customers has increased from 6,59,000 to 7,13,000.

Saumya – {? Nirva Securities ?}: Hello?

Management: Yes.

Saumya – {? Nirva Securities ?}: Okay, sir. My next question is on incremental gold LTV. It has increased from around 70% in Q4 to 74% in Q2 FY25, alongside a significant increase in average ticket size. Is this primarily a competitive response or a deliberate shift in underwriting strategy? How sensitive would the portfolio be to a meaningful correction in gold prices?

Management: If gold loan prices correct, you will see that they corrected between May 15—or May 13—and June 30 in the last quarter as well. A correction in gold prices would mean that we have to collect the margin from the customer by way of a cash margin or through the pledge of additional gold so that LTV can be maintained. Regarding the risk that downside price volatility in gold loans could bring, any sharp correction would mean that we have to collect from the customer. Currently, at the portfolio level, our LTV is about 70%. This means that our LTV is still lower than the prescribed 75%, and that we have a good amount of cushion of about 30% in the portfolio. Therefore, for any correction of 5%, 6%, or 7%, we have that ability and cushion. During that period, we will also be able to collect the money from the customer. We remain quite conservative in this regard. Our LTVs are on the lower side, so we do not see any risk on that front if gold loan prices decline.

Saumya – {? Nirva Securities ?}: Okay, sir. That was all from my side. Thank you so much.

Operator: Thank you. The last question for today is from the line of Suhani Singh from {? Roce Capital ?}. Please go ahead.

Suhani Singh – {? Roce Capital ?}: Good evening, sir. I have a couple of questions. The MSME average sanctioned ticket size has increased from Rs.1.2 million to Rs.1.7 million year-on-year. The incremental LTV has also risen to 53.5%. Is the company consciously moving towards larger borrowers to improve productivity, and how does this affect portfolio granularity and risk-adjusted returns?

Management: There is some network issue. Can you repeat your question, please?

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Suhani Singh – {? Roce Capital ?}: The MSME average sanctioned ticket size has increased from Rs.1.2 million to Rs.1.7 million year-on-year. The incremental LTV has also risen to 53.5%. Is the company still consciously moving towards larger borrowers to improve productivity, and how does this affect portfolio granularity and risk-adjusted returns?

Management: You are referring to the average ticket size per live account, meaning Rs.1.7 million increasing to Rs.2.1 million?

Suhani Singh – {? Roce Capital ?}: Rs.1.2 million to Rs.1.7 million, as the average sanctioned ticket size.

Management: [pause] The trend across the segment is that average ticket size is increasing because property prices are also increasing. It is essentially a function not only of the borrower's loan requirement but also of the underlying property prices. Over a period of time, as we open new branches, we are seeing that the amount of demand is in the range of Rs.20-25 lakh compared to earlier levels. Therefore, the average ticket size is increasing, but that does not necessarily mean that risk is increasing because we are maintaining the loan-to-value ratio wherever mortgage loans are being provided in the MSME segment.

Suhani Singh – {? Roce Capital ?}: Also, the Stage 3 provision coverage ratio has fallen sharply from 43.2% to 33.3%, even as gross Stage 3 has increased. Is this decline largely due to a change in the composition of stressed assets, fortunately towards better-collateralized loans, or has there been a change in provisioning assumptions? How should we assess the adequacy of coverage across the individual segments?

Management: If you look at the individual segments, our provision coverage ratio in MSME loans is still about 45%. For housing loans, it is about 38%, and for construction finance, it is 50%. In gold loans, it is about 19%. If you look at the competition in gold loans, while provisioning is at par in all other cases, our gold loan PCR, which used to be higher, has now been rationalized at about 19%. Competitors that conduct purely gold loan business, unlike us, where only about 50% of the portfolio is gold loans, have PCR in the range of about 15%. Therefore, our PCR in the gold loan segment is still higher than that of the competition.

PCR should provide adequate coverage for losses in case an NPA occurs. In the gold loan portfolio, if the PCR is 19%, it means that even in the event of an NPA account, we have very adequate coverage, and there will be no impact on the balance sheet. Similarly, our MSME loans are collateralized by property, housing loans are collateralized by property, and construction finance is supported by cash flows and the underlying collateral of land and construction. Therefore, I think this level of provision provides an adequate cushion. We have to look at the segments individually rather than at the overall level. The overall ratio has come down, but when you look at the individual segments logically, do they provide an adequate cushion? The answer is yes.

Suhani Singh – {? Roce Capital ?}: Okay, sir. Got it. Thank you very much.

Operator: Thank you. As that was the last question for today, I now hand the conference over to the management for closing comments.

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Management: I thank you for participating in today's earnings call. If you have questions, you can reach out to us or our IR advisors, and we shall be happy to answer your queries. I reiterate that we are on track to achieve an AUM of Rs.65,000 crore by FY28, with return on average equity in the range of about 19-21% and RoA of 4.2-4.7%. Thank you once again, and have a happy weekend.

Operator: Thank you. On behalf of Capri Global Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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